

## Message Text

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21

ACTION EB-07

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 6999

USEC BRUSSELS 143

USMISSION GENEVA

INFO AMEMBASSY SEOUL

AMEMBASSY TAIPEI

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E.O. 11652: NA

TAGS: EEC, ETRD, HK

SUBJ: HONG KONG-EC TEXTILE AGREEMENT

1. SUMMARY: HONG KONG BUSINESSMEN'S CONFIDENCE IN THE HKG'S NEGOTIATING ABILITY AND IN THE IMPENDING UPTURN IN DEMAND FOR THEIR PRODUCTS HAS BEEN SHAKEN BY EC TEXTILES AGREEMENT DRAMA THAT HAS BEEN UNFOLDING SINCE MID-JULY. MANY FIRMS WITH LARGE ORDERS READY TO BE SHIPPED FACED SERIOUS FINANCIAL PROBLEMS. IN RECOGNITION OF THE SERIOUSNESS OF THE PROBLEM, THE HONG KONG COMMERCE AND INDUSTRY DEPARTMENT, AFTER AN INITIAL PERIOD OF CROWING OVER ITS NEGOTIATING ACHIEVEMENT IN BRUSSELS, REVERSED ITSELF AND CALLED DIRECTOR JORDAN BACK FROM LEAVE TO LEAD A TEAM WHICH VISITED COPENHAGEN, BONN, LONDON AND BRUSSELS SEEKING RELIEF. ALSO, IN A SUCCESSFUL EFFORT TO EASE SOME OF THE EXPORTERS' MOST SERIOUS PROBLEMS, DCI HAS ISSUED ADDITIONAL QUOTA ALLOCATIONS. DEPUTY DIRECTOR MILLS IS NOW BACK IN BRUSSELS IN HOPE OF PERSUADING THE EC TO AGREE TO SOME RELIEF FOR HONG KONG'S TEXTILE EXPORTERS. END SUMMARY

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2. ON JULY 18, THE COMMERCE AND INDUSTRY DEPARTMENT, IN

CONJUNCTION WITH HONG KONG'S AGREEMENT WITH THE EC, SUSPENDED THE ISSUANCE OF EXPORT AUTHORIZATIONS FOR TEXTILES TO EC COUNTRIES. THIS IS A REOUTINE PROCEDURE USED BY DCI TO OBTAIN A BREATHING SPACE WITHIN WHICH TO WORK OUT ITS QUOTA ALLOCATIONS TO MANUFACTURERES AND EXPORTERS. THE CHIEF NEGOTIATOR, DCI DEPUTY DIRECTOR LAWRENCE MILLS, RETURNED FROM BRUSSELS AND, IN A SERIES OF NEWS CONFERENCES, RELEASES, ETC. REPORTED THE HAPPY NEWS THAT THE AGREEMENT WAS BENEFICIAL TO HONG KONG, AND CONSIDERABLY BETTER THAN THE NIGGARDLY DRAFT ORIGINALLY TABLED BY THE EC COMMISSION. TO HKG'S DISMAY, THIS FIRST NEWS WAS FOLLOWED BY A RISING CHORUS OF AGAONIZED COMPLAINTS FROM MANUFACTURERES WHO HAD BEEN CAUGHT WITH LARGE STOCKS OF MERCHANDISE READY TO BE SHIPPED TO EUROPE, AND WERE NOW RECIEVING QUOTA ALLOCATIONS FAR TOO SMALL TO ALLOW THEM TO DO ANYTHING OTHER THAN GO INTO BANKRUPTCY. FAST ACTION BY ACTING DCI DIRECTOR JIMMY MACGREGOR IN ALLOCATING ADDITIONAL QUOTAS AND REALLOCATING OTHERS SEEMS TO HAVE SOLVED THE WORST PART OF THE PROBLEM, BUT THE GRUMBLING LINGERS ON.

3. THE DIFFICULTY AROSE FROM TWO ASPECTS OF THE AGREEMENT.

A) SEVERAL CATEGORIES OF KNITWEAR (THIS YEARS HOTTESTSELLING ITEM) NOT PREVIOUSLY RESTRAINED WERE PLACED UNDER RESTAINT. B) THE AGREEMENT YEAR RUNS FROM JAN 1 TO DEC 31. THEREFORE, HONG KONG AGREED TO LIMIT ITS EXPORTS TO 45 PERCENT OF THE ANNUAL QUOTAS FOR THE PERIOD FROM JULY 18 TO THE END OF THIS YEAR. THE 45 PERCENT IS BASED ON A PRO-RATA CALCULATION OF THE CALENDAR YEAR. IT IGNORES SEASONAL TRADING PATTERNS. JULY AND AUGUST ARE THE BIG MONTHS FOR SHIPMENTS DESTINED TO BE SOLD BEFORE CHRISTMAS. CONSEQUENTLY, CONSIDERABLY MORE THAN 45 PERCENT OF THE YEAR'S SHIPMENTS LEAVE HONG KONG IN THE SECOND HALF OF THE YEAR.

4. THE QUESTION MOST OFTEN ASKED BY THE TRADE IS WHY THE NEGOTIATORS WERE NOT AWARE OF THE LARGE OVERHAND WAITING TO BE SHIPPED. CERTAINLY, IF THEY HAD BEEN THEY WOULD NOT HAVE AGREED TO PROVISIONS SO POTENTIALLY DAMAGING TO HONG KONG'S MAJOR INDUSTRY. DCI SPOKESMEN HAVE REPLIED THAT THE TRADE, FOLLOWING ITS NORMAL PRACTICE OF RETICENCE, NEVER TOLD THEM ABOUT IT, DESPITE THE MANY CHANNELS OF CON-

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SULAATION BETWEEN THE INDUSTRY AND THE GOVERNMENT. THEY FURTHER POINT OUT, PRIVATELY, THAT THEY NEGOTIATED IN BRUSSELS FROM A POSITION OF WEAKNESS, AND, IN FACT, HAD VER LITTLE ROOM FOR MANUEVER.

5. DCI HAS, NEVERTHELESS, TAKEN THE MATTER VERY SERIOUSLY. IN ADDITION TO MACGREGOR'S SHORT TERM MEASURES OF JUGGLING THE QUOTA ALLOCATIONS TO ALLOW SHIPMENT OF THE EXISTING

STOCKS, DCI DIRECTOR DAVID JORDAN RETURNED PREMATURELY FROM HIS ANNUAL LEAVE IN EUROPE AND LED A TEAM TO COPENHAGEN, BONN, LONDON AND BRUSSELS SEEKING RELIEF. THE TALKS WERE ADJOURNED, AND A NEW GROUP, LED BY DEPUTY DIRECTOR MILLS IS BACK IN BRUSSELS THIS WEEK.

6. PRIVATELY, DCI OFFICIALS EXPRESS LITTLE HOPE THAT THE EC WILL BE ANY MORE FORTHCOMING THAT IT HAS BEEN. THEY POINT OUT THAT BRITAIN, BECAUSE OF ITS ECONOMIC DIFFICULTIES, HAS BEEN THE MEMBER MOST ANXIOUS TO IMPOSE RESTRAINTS. DESPITE THE EASIER ATTITUDE OF THE OTHER MEMBERS, DCI OFFICIALS ARE AFRAID THEY WILL HAVE LITTLE CHANCE AGAINST THE EC'S WELL-KNOWN PROCLIVITY TO BASE ITS POSITIONS ON THE LOWEST COMMON DENOMINATOR.

7. THE ISSUE OF TEXTILE EXPORTS IS OF PARAMOUNT IMPORTANCE TO THE HONG KONG ECONOMY RIGHT NOW. AFTER A FULL YEAR OF RECESSION, RISING UNEMPLOYMENT, NO GROWTH, AND STABLE PRICES, THE BUSINESS COMMUNITY AND THE GOVERNMENT HAVE BEEN SEIZING AT EVERY STRAW IN THE WIND TO PROVE THAT THE UPTURN HAS STARTED. MOST OFTEN HEARD IS THE STATEMENT THAT "ORDERS ARE PICKING UP." OTHER THAN THAT, NO STATISTICAL EVIDENCE OF AN UPTURN HAS YET APPEARED. AS A RESULT, THE EC TEXTILES AFFAIR HAS CAUSED SERIOUS CONCERN THROUGHOUT THE BUSINESS COMMUNITY HERE.

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